MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BEC1624 –MACROECONOMICS

(All sections / Groups)

9 MARCH 2020
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 5 questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Explain briefly what the GDP deflator is trying to measure and indicate **TWO (2)** important differences between GDP deflator and consumer price index (CPI).

(10 marks)

(b) A nation can enjoy a high standard of living only if it can produce a large quantity of goods and services. However, capital is subject to diminishing returns and catch-up effect, holding constant all the other determinants of output. Discuss the **TWO (2)** implications when stock of capital rises.

(4 marks)

(c) Policymakers face a shot run trade-off between inflation and unemployment. Discuss this trade-off when household spending on houses increases as reflected by the reduction in the overnight policy rate.

(6 marks)
(Total: 20 marks)

QUESTION 2

"Fiscal deficit reduced by RM14 billion

PETALING JAYA: The Pakatan Harapan government has reduced the country's overspending or fiscal deficit by nearly RM14 billion in the first five months of 2019 in comparison to the same period last year. Given the current fiscal performance, Finance Minister Lim Guan Eng has reaffirmed his confidence that the government would likely achieve its fiscal deficit target of 3.4% of gross domestic product (GDP) in 2019. This will encourage foreign investors to invest in Malaysia."

Source: The Star, July 25, 2019

(a) Sketch the market for loanable funds diagram and label each curve, equilibrium point and each axis of the diagram. Indicate in the diagram the point where saving equals investment.

(3 marks)

(b) Based on the article above, sketch again the market for loanable funds diagram on how the fiscal deficit may lead to the crowding out effect in a closed economy. Label each curve, equilibrium point and each axis of the diagram.

(7 marks)

(c) Based on the article above, what will happen to the nation's net capital outflow, real interest rate, real exchange rate, quantity of ringgit and trade balance in year 2019 in an open economy? Include a three-panel diagram, the market for loanable funds, net capital outflow and the market for foreign currency exchange to display the effects.

(8 marks)

Continued...

(d) If foreign investors have the confidence to invest in Malaysia, how this situation will affect Malaysia's net capital outflow and trade balance?

(2 marks)
(Total: 20 marks)

QUESTION 3

(a) Bank Negara Malaysia (BNM) may use some tools of monetary control to ensure price stability. Explain **FOUR (4)** tools that BNM may use to fight for high inflation.

(8 marks)

(b) 'The Bank Negara Malaysia (BNM) cannot perfectly control the money supply in an economy system of fractional-reserve banking'. Justify the statement.

(4 marks)

(c) Bank B holds RM500 million in deposits and maintains a reserve ratio of 10 percent.

(i) Complete a T-account for Bank B.

Bank B			
Assets		**Liabilities**	
Reserves	RM? million	?	RM? million
?	RM? million		

(5 marks)

(ii) Work on the amount of money created in this economy.

(3 marks)
(Total: 20 marks)

QUESTION 4

(a) Explain the effects of a monetary injection on the level of prices and the value of money.

(6 marks)

(b) If price level remains the same, demonstrate how the monetary injection affects the quantity of goods and services in an economy by assuming the velocity of money is stable overtime.

(4 marks)

(c) Suppose the government reduces taxes by RM50 billion and that the marginal propensity to consume (MPC) is 0.75. Differentiate the total effect of this RM50 billion tax cut with the total effect of a RM50 billion increases in government spending if the MPC remains the same and there is no crowding-out effect for both.

(10 marks)
(Total: 20 marks)

Continued...

QUESTION 5

(a) Sketch a graph of aggregate demand and indicate how the price level affects the quantity of goods and services demanded for consumption, investment and net exports.

(9 marks)

(b) Using the same graph drawn for part (a), sketch the long run aggregate supply curve and indicate how the price level affects the quantity of goods and services in the long run.

(2 marks)

"Kelantan seeks federal government's help for farmers affected by flood

PASIR PUTEH: The Kelantan government is requesting the federal government to help farmers in Semerak who had experienced losses amounting to RM2.4 million after their crops, especially sweet potatoes, were destroyed by a recent flood.

State Agriculture, Agro-based Industry, Biotechnology, Green Technology and Environment Committee deputy chairman Abdul Azziz Kadir said the farmers needed help to recover from huge losses."

Source: The Sun daily, December 8, 2019

(c) Based on the article above, what is the short run macroeconomic impact of the event and sketch a graph of aggregate demand and aggregate supply to display the current situation. Label each curve, equilibrium point and each axis of the diagram.

(5 marks)

(d) Based on the article above, is there any possibility for the policymakers to mitigate the impact on quantity of output and price level? Explain in details.

(4 marks)

(Total: 20 marks)

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